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INTERNAL POLICY MEASURES TO FACILITATE THE INTEGRATION OF SMALLER ECONOMIES INTO THE FREE TRADE AREA OF THE AMERICAS *

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ABSTRACT

Seeks to guide the deliberations of officials representing smaller economies as to the internal policy measures which will best equip them to participate in a liberalized trading arrangement, such as the Free Trade Area of the Americas. The policies fall into two broad categories. The first, which is symbiotic with the second, is in the realm of macroeconomics. Here the objective is to establish and sustain the appropriate stabilization policies, while applying other measures to encourage the economy to expand efficiently toward its production frontier. The second set of policy initiatives are intended to foster national consensus and build the human and institutional capacities which can lock-in and secure, those major precepts necessary to secure a stable macroeconomic platform over the long term. Commercial policies are also discussed, especially the need to focus on removing the numerous impediments which limit the proper functioning of factor and product markets and which are endemic in smaller economies.

Key words are: Macroeconomic policies, Stabilization policies, Commercial policy, Competition policy, Trade policy, Free Trade Area of the Americas, Small economies.

INTRODUCTION

The internal policy measures necessary to permit the smaller countries to integrate effectively into the Free Trade Area of the Americas (FTAA), do not differ significantly from those required for them to integrate into global markets. They also follow along the same path as those policy initiatives currently underway to reestablish macroeconomic balance and accelerate economic performance. Accordingly they are entirely compatible with policies adopted by several potential members. However, the time-frames being mooted for accession to the FTAA require that these countries redouble their efforts and quicken the pace of reform in several areas, simultaneously. While this new timetable could advance the pace with which the smaller economies achieve viable and efficient productive structures, it could place greater strains on weak domestic enterprises, which must prepare themselves to face hemispheric competitors. It would also make greater demands on domestic and regional policy makers, putting a premium on the appropriate choice of policies, their expeditious implementation and proper sequencing. In all of these areas there is increased risk of policy error, social instability and policy reversal. Several of the smaller economies, will, therefore, benefit from technical and financial assistance to help them to quicken the reform process and ensure that this rapid transition is successful.

The Miami Summit and subsequent ministerial meetings suggest that hemispheric integration will include, the liberalization of trade in services and the reduction or elimination of barriers to investment; integration in sectors such as telecommunications, energy, financial services and infrastructure via projects and new institutional or regulatory arrangements; the adoption of various regulations and practices relating to trade and investment compatible with the World Trade Organization (WTO) agreements and inspired to a considerable extent by some provisions in the North American Free Trade Agreement (NAFTA) as well as recent regional trading arrangements; and various cooperation measures in the area of science and technology (ECLAC, 1995a).

If the smaller economies are to increase their capacity to take advantage of the opportunities offered by hemispheric integration, they will have to undertake a series of internal adjustments, which will require technical and financial cooperation, if they are to be sustainable (ECLAC, 1996a, chapter IV). The efforts required to secure these adjustments should not be underestimated. They will be complicated by constraints on their capacity to compete which derive from small size; by the need to adopt policies which go counter to practices accepted over the past three decades; and by the fact that, in a democratic framework with strong legal and administrative systems, the costs of adjustment are likely to be felt immediately, while the benefits will accrue only after the most difficult actions are taken, in the medium to long term. Accordingly, the smaller countries might need longer time periods in which to adjust to some of the FTAA measures.

Internal policy measures fall into two broad categories. The first, which cannot be over emphasized, since it is a precondition for the success of the second, is in the realm of macroeconomic policy. Here the objective is to establish and sustain a relatively stable equilibrium in the economy, while applying other appropriate measures to encourage it to expand efficiently toward its production frontier. The second set of policy initiatives should seek to foster national consensus and build the human and institutional capacities which can lock in and secure those major policy precepts necessary to secure stable macroeconomic policies. They should also focus on removing the numerous impediments which limit the proper functioning of factor and product markets and which are endemic in smaller economies.

MACROECONOMIC POLICY

Essentially, macroeconomic policy is charged with twin goals. The first is to sustain a stable economic platform and the second is to provide a framework to encourage long-term growth. Both goals can be symbiotic, since stability reduces risk and improves the climate of confidence for investment. In so far as microeconomic policy is concerned, various incentives can be provided to encourage markets to perform more effectively, for example in public services, training, environmental policy or with respect to labour market rigidities. Some of these issues will be discussed in the following section.

A **precondition** for strong long-term economic growth is a stable economic platform in which such macroeconomic imbalances, as may exist, are held within sustainable limits. It is impossible to overemphasize this point, since imbalances erode confidence, which is a precondition for investment and economic expansion. Imbalances also heighten expectations of increased taxation, inflation and currency depreciation. Often, in the transition, measures designed to remedy the imbalances can create public disorder, further reducing public confidence. The major symptom of imbalance is inflation, which disrupts both savings and investment in productive activities.

Favourable expectations resulting from expanded and more secure markets for inputs and outputs, and the reduction of risk associated with agreements that lock in certain policy variables and ensure greater policy consistency (ECLAC, 1995c), mean that greater investment ought to be one of the main, if not the principal, result of hemispheric integration. To take advantage of this potential, conditions should be created in the smaller economies which favour investment. These include macroeconomic stability, functioning financial markets and adequate infrastructure (ECLAC, 1996b). Other important determinants of investment include a comparatively distortion-free relative price structure functioning in the context of adequate political and property rights institutions (Schmidt-Hebel, Servén and Solimano, 1996).

Risks for investors resulting from macroeconomic instability can be associated with high inflation rates and exchange rate variations. Both theory (Michaely and Papageorgiou, 1996), and practice coincide in pointing to a more favourable track-record of small countries than larger countries in this area (see annex, table 1). In contrast, fiscal and current account deficits have generally been larger, which is consistent with greater dependence on official capital flows to cover both gaps, a characteristic which small countries tend to share (ECLAC, 1996a).

These deficits, which are associated with an excessively low level of domestic savings and possibly with an overvalued exchange rate, not only increase the vulnerability of these economies to external shocks, such as an adverse shift in the terms of trade or a reduction of unilateral transfers, but also place local producers of tradable goods in unfavourable competitive conditions. Therefore, it is of utmost importance for these countries to increase internal savings and ensure sustainable growth via appropriate fiscal and trade policies.

The maintenance of a stable economic platform while expanding economic activity is not the monopoly of any single institution or set of actors so that policy needs to be coordinated and mutually supportive in several areas, most notably in fiscal and monetary policies. These policies need also to be carefully coordinated to control demand as trade liberalization policies proceed. Stability in smaller open economies, especially those in the process of integrating their markets, requires constant vigilance and discipline in fiscal and monetary policy. A freely convertible currency contributes to investor confidence and can encocurage investment in an expanding global capital market.

Aggregate demand policies should be carefully monitored and tailored to potential output. Control of the money supply is primarily the responsibility of the central bank, which should be accorded a high level of independence to pursue its main mandate, which is to protect the value of the currency and the overall integrity of the financial system. Positive real interest rates should be maintained, especially where capital markets are being liberalized. The rate should be sufficient to induce that quantum of foreign and domestic long-term savings which can be effectively absorbed. However, positive rates may not be sufficient to increase saving. Reforms may be necessary in order to deepen and better regulate financial institutions as well as to help bring about changes in pension or tax incentive schemes that will promote saving. Rates should not discriminate between sectors, that is selective credit controls should be eschewed, so as to ensure that capital will be allocated to those activities with potential for providing the greatest returns. International capital flows, in a liberalized foreign exchange market, can provide a powerful tool for economic development. Long-term flows, which are likely to resume after the initial phases of successful adjustment, also provide some indicator of the confidence which foreigners, and locals via returning flight capital, have in domestic economic management. Nevertheless, macro policy must be managed with great care, and intervention might be justified, to ensure that foreign capital flows do not destabilize key prices, such as the exchange or interest rates. Means have to be found to intermediate these resources so that they find their way into new productive investments rather than solely into consumption. All of these issues require coordinated policies.

Exchange rate policy should aim at achieving a stable real rate so as not to introduce undue uncertainty into business transactions. It should be maintained over the long term, with the assistance of other appropriate policy instruments, at a real rate that will encourage investors to take long-run investment decisions to expand non-traditional exports. Some of the smaller countries also advocate fixed nominal rates of exchange and these, together with the commensurate macroeconomic policies, have so far contributed to the high level of eligibility for accession achieved by them (ECLAC, 1996a).

A real exchange rate depreciation is often prescribed for the initial stages of liberalization with the objective of stimulating exports and dampening imports so as to offset the expected negative effects of tariff cuts on the balance of payments. Imports originating in the Western Hemisphere, and especially in the United States, constitute a major source of supply in most countries in the region and integration will stimulate them further by diverting extraregional imports. Accordingly, the real depreciation to be required as a result of hemispheric integration should not differ significantly from that required in the case of a unilateral reduction of tariffs in each individual country.

The traditionally greater exchange rate stability in small countries and the closer degree of correlation between devaluation and inflation, resulting from their greater openness, means that they are less likely to achieve a real depreciation than the larger countries. Specifically, those smaller economies with strict macroeconomic standards and with an exchange rate policy approximating that of a "currency board" regime, or countries which share a common currency, such as the Organization of Eastern

Caribbean States (OECS), are less likely to resort to devaluations as a means of achieving greater competitiveness.

Nevertheless, they are not immune to various risks and rigidities, such as the possibility of strong external shocks, high levels of unemployed resources, especially unskilled labour, rigid nominal wages, fragile national consensus and, in admittedly fewer instances, weak fiscal discipline. Some of the smaller economies with fixed exchange rates are also beginning to manifest medium term stagnation in export earnings, despite sustained efforts to reduce domestic production costs. Any unbending decision to eschew changes in the nominal exchange rate by such countries might incur a higher cost, in savings, investment and growth foregone over the long term, than if nominal rates were skillfully employed. On this issue, policy prescriptions for the smallest economies are still subject to some uncertainty.[1]

Fiscal policy is also a crucial area of internal adjustment needed to facilitate integration and build confidence. There is, however, no universal agreement on the appropriate level of debt, nor a fool-proof blueprint for fiscal indicators. The two are clearly related. Some have suggested that fiscal targets should aim at a primary surplus, that is before debt service expenditure, or an operational deficit[2] of no more than about 2% of GDP, while others consider these targets as not sufficiently rigorous. Even so, fiscal targets cannot be seen in isolation from agreement on a sustainable level of national debt. New Zealand[3] defines this as 30% of Product, for the short-term, 20% for the long term. The current debate in the United States relates to a debt to GDP ratio hovering at 50% from 1992-1995. Convergence criteria for the Economic and Monetary Union (EMU) includes a debt to GDP ratio of 60%.[4]

Some have argued for legislation requiring a balanced budget.[5] While ensuring fiscal discipline, such regulation would severely limit the authorities' capacity to pursue counter-cyclical policies. Some also argue that the utility of counter cyclical policies is greatly overstated. Even so, if balanced budget legislation was passed in an environment in which there was no genuine commitment to it, ways could always be found to move some expenses off the balance sheet or otherwise confuse the public as to the real state of the accounts. For instance, the focus might be placed on the central government account, rather than on the consolidated public sector. And deficit could be defined either before debt servicing or after. Is balance achieved because of the divestment of public assets, by unsustainable cuts in capital

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[1] Depreciation is warranted only where exchange rates are not at their long-run, equilibrium values. This might come about where rates had been administratively set, or in a managed float, or where rapid liberalization of trade policies were expected to impact heavily on domestic production and the external account. Nevertheless, the conditions for a successful depreciation are fairly stringent. Spare productive capacity should be available and the depreciation should not be rapidly eroded by increases in wages or prices, that is some prices should remain fairly stable in the short to medium term.

[2] Disregarding that portion of the interest bill which simply compensates for inflation.

[3] New Zealand is used as an example in several following instances since it has been able to institutionalize policies which show a serious commitment to fiscal and monetary discipline and transparency, all intended to produce greater confidence in the economic and financial system. Several other interesting policies were implemented by this relatively small Commonwealth country, which had to adjust its direction of trade away from a preferential arrangement within the British Commonwealth and make its way globally.

[4] In the Caribbean, for example, this varies widely, from 48% in the Bahamas to 280% in Guyana.

[5] Debate on balanced budget legislation has been ongoing in the United States for some time, while some proposals relating to balance budgets have also been made by the IDB.

spending? Is a social debt being incurred? How healthy are social security schemes? Clearly several matters need to be thoroughly ventilated.

How fiscal balance is achieved, therefore, matters. Economic performance and confidence in the quality of economic management will be shaped by the composition of public spending as well as by its magnitude. The sustainable rate of taxation is also influenced by economic integration. On one hand, free trade within the hemisphere implies that tariffs on this trade will have to be eliminated, thereby reducing an important source of revenue in Caribbean and Central American countries. On the other hand, investment, both local and foreign, will be discouraged where taxes are significantly out of line with alternative investment locations. Nevertheless, taxes need to be sufficient to maintain and modernize the society and meet essential social obligations. Under-taxed societies, which are run-down and incapable of providing appropriate physical and social infrastructure, do not inspire confidence in the future, either for common citizens or for long-term investors.[6]

Increasing tax revenue to offset tariff reductions could well be the most important domestic policy challenge facing small countries to facilitate their integration into hemispheric integration. Nevertheless, closing the public sector deficit might prove more difficult in small countries than in large ones, for two main reasons.

First, there is usually less room for reducing government expenses. Unit costs of producing public goods and services in small countries is higher, due to the difficulties of capturing economies of scale, while the small size of the national economy makes effective divestiture difficult. Successful integration will also require a more effective institutional framework and public administration and better infrastructure. Second, effective tax reform will depend on efficient public administration and the capacity to surmount the lobbying power of the concentrated private sector, which in some countries can introduce a bias against an equitable tax system.

To achieve fiscal balance, within a manageable tax framework, great care will be needed in defining expenditure priorities. These should be placed on areas dealing with human development, such as primary health and education, since they make the most lasting contribution to both equity and efficiency. Great care is necessary, however, in shaping these programmes to ensure that programmes effectively target the neediest people and that they are sustainable over the long run. Adequate infrastructure also needs to be created and maintained, and in doing so cost effective ways should be explored to provide the necessary services without overburdening the public purse, wherever possible in conjunction with private actors. Unnecessarily large bureaucracies, which absorb disproportionate amounts of trained people and skew salary structures away from productivity gains, should also be resisted, though they also need to increase their capacity to perform the essential tasks of economic management in a rapidly changing environment. Indiscriminate transfers to individuals or public enterprises, the utilities or the central bank, should also be eliminated.

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[6] Overall, it seems that some consensus exists in the Caribbean, for example, that the revenue take should not absorb more than perhaps 30-40% of Product. This seems to be a range, which, if exceeded, the tax take starts to lag behind the tax rate, and where taxation becomes a disincentive to enterprise. Nevertheless, ratios vary widely in the smaller economies, and the sustainable rate of taxation will differ depending on the efficiency of the tax collecting machinery, the credibility of the governmental apparatus and several cultural factors.

The structure of taxation should aim at being progressive and should be broad based so that revenues will not be unstable. Reliance on trade taxes should be reduced for this reason, but also because of the anti-export bias which they create for domestic production. In any event pressures from the integration process will ensure their reduction. Nevertheless, the range of taxable sources or even individuals is severely limited in some of the very small economies. Tax reform has commenced in several of them to reduce their extreme reliance on import taxes. Extremely punitive rates of income tax in the higher brackets are being reduced with decreased dispersion in the rates overall, in many cases as part of efforts to reduce tax avoidance. As import tariffs have gradually contracted value added or consumption taxes have been substituted. The process of tax reform needs to extend to those which have not so far started it.

Improved tax administration is also necessary in the context of global or hemispheric integration. Changes in tried tax structures make greater demands on established collection practices. Slippage in this context can retard or upset the path to economic equilibrium, since the margins between the taxes levied and the budgeted needs should be narrow. Also, as cross-border trade and employment opportunities increase the income accruing to nationals from foreign activities should be subject to tax. This might require a more sophisticated approach to tax collection than has hitherto been the case in some of the smaller economies. The area of tax administration, therefore, is one in which technical assistance can be fruitful. New technologies hold the promise of budgeting in real time, with significant gains to be reaped in fiscal discipline and the efficient use of resources.

TRADE POLICIES

Trade policy should be designed to ensure that incentives falling under it are not skewed to favour non tradables. Tariffs are the least distorting of the trade instruments, but any tariff in excess of zero, without a countervailing subsidy for exports, maintains a bias against the latter. Other instruments to limit imports, such as stamp duties, import surcharges, non-tariff barriers and the range of quantitative restrictions, have a similar effect. Ideally, therefore, import taxes should be limited to low and uniform tariffs, although some slight variation might be justified because of market imperfections. In this way the differential rates of protection between tradables and non-tradables and between traditional and non-traditional sectors can be limited.

Trade policy in most of the smaller economies has been shifting from an import substituting to an export-oriented paradigm, but lags in the regulatory apparatus hinder the process. This is in part because several of the smaller economies are locked into regional integration movements, in which a Common External Tariff applies. Within the Caribbean Community (CARICOM) and the Central American Common Market (CACM), current policy calls for the establishment of a single market and economy, an aspiration which creates some tension with the shift to an integrated hemispheric market. Already fairly close coordination of trade measures exist within CARICOM and the CACM, with the objective of closer ties being extended to fiscal and monetary matters. Decisions are made by consensus. Changes are, therefore, slow, especially on tariff questions where the network of regional interests is even more complex than those at the national level. In several instances, trade policies lagged other macroeconomic policies and created tensions with them. Regionally agreed undertakings were frequently ignored, or tardy in their implementation, so that frustrations developed within the regional grouping among those wishing to push ahead with economic reform. Several members recognize, however, that as global markets consolidate, investors seeking an export platform will favour those countries that discriminate least against exports, and efforts continue within the membership to liberalize the trade regime.

The quest for reduced tariffs is complicated by the heavy reliance which some countries still have on trade taxes for their revenues. They contribute more than half of tax revenues in all the OECS countries, ranging from 52% in Montserrat to as high as 66% in Antigua and Barbuda. In Barbados, Jamaica and Trinidad and Tobago, where tax reform policies have been implemented reliance on trade taxes is much less, ranging from 8.6% in Barbados to 14% in Jamaica in 1994. A new tax regime also came into force in Belize in 1996 which is expected to reduce the reliance on trade taxes from over 54% in 1994. However, early efforts by Grenada to reform its tax structure faltered, because of difficulties experienced in collecting consumption taxes. This experience alerted some of the smaller countries to the administrative difficulties attendant on tax reform and may have dampened their zeal to commence it (ECLAC, 1995d).

The task of integrating those smaller economies wishing to integrate into the Free Trade Area of the Americas (FTAA) will require the reduction and eventual elimination of the tariffs they presently apply to imports originating in the hemisphere. While the average tariffs covering imports into the smaller economies are not significantly higher than those of the larger ones the dispersion covering the various tariff categories tend to be greater (see annex, table 2). For example, the CARICOM Common External Tariff had an average tariff of about 12% with a dispersion of just over 12%. In Central America, the tariff scales varied quite widely, from average tariffs of 9% in El Salvador to 20% in the Dominican Republic and 27% in Panama. Dispersion ranged from 6% in El Salvador to 31% in Panama. For the group this represented a simple mean of 16% average tariff with a spread of 13%. Among the larger countries in South America Argentina has an average tariff of almost 16%, Peru 16.3, with the others clustering around 11%. Dispersion was generally quite low, however, ranging from 3% in Peru, to 9% in Argentina. The average tariff in the United States was recorded at just over 6%, with a similar range of dispersion while Canada had an average tariff of almost 9% with a dispersion of about 7% (ECLAC, 1996a).

The wider tariff spread evident in the smaller economies might be explained by institutional weakness on the part of governments and by their vulnerability to protectionist pressures arising from oligopolies which have immense lobbying power.[7] On the other hand, more concentrated industries with higher tariffs could also imply greater potential adjustment costs resulting from the liberalization of reciprocal trade. Being more accustomed to higher levels of protection, the larger companies may be less prepared to compete with tariff-free imports than companies in large countries, which are protected by tariffs with a narrower spread. Distinguishing between protectionist rent-seeking activities and the actual need for gradual adjustment will be necessary to determine the characteristics of the transition period before achieving the desired level of tariffs. Only in this way will it be possible to prevent vested interests from over-extending the duration of the transition.[8]

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[7] For instance, while small-and medium-scale enterprises may have valid fears regarding the elimination of tariffs, the current structure of effective protection in Central American countries tends to favour the capital-intensive sectors that use imported inputs: these are the concentrated sectors in which large enterprises operate. See ECLAC (1995b).

[8] WTO and NAFTA agreements suggest that a maximum transition period of 10 years is appropriate, with possible exceptions which could be granted transition periods of up to 15 years.

THE INVESTMENT CLIMATE AND INSTITUTIONAL DEVELOPMENT

Building national consensus and the investment climate

If appropriate policies are to be consistently applied, in the context of competing political parties, a solid consensus on the major policy planks needs to painstakingly build. This consensus will help define the limits of acceptable policies, thereby ensuring some measure of policy consistency. National consensus is necessary for building confidence in the stability and predictability of long-term policies and in the economy as a whole. Long established democracies in the Caribbean and recent but very significant progress in this realm in the remaining small countries of the hemisphere point to the existence of an adequate framework for building this consensus.

One prerequisite for confidence is openness. Policies should be explicit, wherever possible, with quantifiable targets. Information should be readily available, to allow the public to judge how these targets are being met. That means budget presentations should be explicit and the data dissemination process as current as the art permits. The data should also be credible, sufficiently distanced from the political process to form an objective yardstick by which targets might be measured. Political leaders can give the process greater integrity by adopting realistic assumptions on which to base their projections. The process can be made more transparent by reviewing performance at regular periods, perhaps quarterly, signaling adjustments where necessary.

Transparency of this type can help the public at large to understand what is happening, but the political directorate also stands to benefit, since reactions will be conditioned by solid information rather than rumor. It is well documented that markets eventually take corrective action but, in part because of imperfect information and in part because of the psychology of the markets, they are often tardy in acting and frequently overreact when they do. Clear targets and good information will help markets to react more smoothly, give early signals of public reaction to current policies and reduce the likelihood of panic and over-reaction. In short, they can contribute to confidence and stability.

The central bank and monetary safeguards

Central banks, as the pinnacle of the financial system, play the key role in maintaining the viability of the economic system notably in preserving the value of the national currency. They are implicitly responsible for containing inflation and should be charged explicitly with that task. The concept of the independent central bank is one which has been keenly discussed in several small countries, though without much result, so far. Moreover, some believe that even where scrupulous fiscal policies are applied, one of the traditional functions of the central bank in some of the smaller economies, that of banker to the government, can weaken public confidence in the financial system. That special relationship with government is considered by some to compromise its partiality and could undermine the bank's more systemic task which is to oversee the financial system as a whole. This is particularly true where the bank had a history of acquiescing to the requests of the ministry of finance for money creation or expansion.

The mandate of the central bank might, therefore, be strengthened by granting it independence both from private sector interests as well as from political directorates, thereby strengthening its regulatory capabilities while relieving it of its special role as banker to the government.

Box 1

A SINGLE CARICOM CURRENCY AND CENTRAL BANK

Following the poor record of central bank performance in some of the countries, it has been suggested that a joint central bank might be a restraining influence on monetary policy in the larger CARICOM countries, as it has been in those countries members of the Eastern Caribbean Central Bank (ECCB). These considerations might have influenced the proposal for a single CARICOM currency and central bank. In this way, its proponents believed that the central bank could be insulated from political pressures to focus on the effective control of monetary policy and its supervisory, regulatory and reforming tasks, in the private banking system. The idea of a joint central bank, might present, however, several technical difficulties where widely varied economic circumstances exist between potential member countries. Under such arrangements, substantial hurdles, both political and technical, will be experienced in first agreeing common policies and subsequently in trying to harmonize them. The difficulties being experienced in the European Union as it strives to converge towards the European Monetary Union provide examples of the issues which need to be resolved. Nevertheless, the desire to establish bank independence is laudable and is equally justifiable at the national level, even where agreement cannot be reached for a regional institution.

Source: Delisle Worrell, "Economic integration with unequal partners: The Caribbean and North America", December 1993, unpublished.

The supervisory, regulatory and reforming role of the central bank becomes particularly important as the financial sector is deregulated through the process of hemispheric integration. The central bank needs to take the lead responsibility and work at the institutional level to increase the efficiency and flexibility of the financial institutions and capital markets. Allocational efficiency is substantially covered by various macro policies, especially transparent and non-discriminatory interest rate policies. Operational efficiency is measured by the cost, in real resources, to provide financial services. The closeness of fit between the needs of clients and the services provided to them requires innovation and flexibility as these needs change over time. Some deregulation has been necessary in financial systems globally, to allow innovation and flexibility in tailoring financial instruments to changing needs. Far reaching changes will also be necessary in domestic financial institutions of the smaller economies if the countries are to benefit from improved trading and investment opportunities and if the institutions are to succeed in the face of new entrants to the financial services sector. In some instances this has begun, though the process is still tentative, and conditioned by the fact that financial institutions in several of them have been sheltered from international competition and practice for protracted periods in the recent past. The process will need to be sustained and accelerated if commercial banks are to maximize their contribution to the development process and if they are to be strong enough to survive when financial services are liberalized.

Simultaneously, it is necessary for the central bank to strengthen its prudential regulation. Briefly stated, the new regime must make it easier to evaluate the solvency of financial institutions and limit the risks of loss which financial institutions can assume. Obviously, these are crucial conditions to increase the confidence of both savers and investors in any financial system. They become especially important in the more fluid financial atmosphere that is encouraged by liberalization, for if confidence does not reside in domestic financial institutions, savings will be diverted abroad to those institutions which can boast it.

Finally, it is essential that the shift to central banking independence not be seen as the beginning of an adversarial relationship with government. Rather, it would be most desirable for government to divest itself of this area of policy, with relief, recognizing the many potential conflicts of interest which might arise, as well as the specialized nature of the task. It is essential during this period of reform to ensure that a good ongoing working relationship between the government and the central bank is maintained since several policies, notably fiscal and monetary policies, require cooperation between them if they are to succeed and if confidence in the economic and financial system is to be built.

Safeguarding fiscal policy

A sustained tight fiscal policy is necessary to complement the restrictive monetary policies with which an independent central bank will be charged. In the competitive democracies which exist in several of the smaller economies, where time horizons seldom exceed five years, incumbents sometimes find it difficult to resist the temptation to pursue unsustainable expansionary fiscal policies timed to create boom conditions just prior to an election. It might be useful to explore ways whereby this option could be rendered more difficult or removed from the political arena altogether. New Zealand, for example, has enacted a Fiscal Responsibility Act, which has several interesting components (IMF, 1995, pp. 30-31). It requires public sector accounts, with a full balance sheet and an accrual based operating statement of income and expenditure (Ernst and Young, 1995). This, in turn, must be audited by a private accounting firm. It sets out the criteria for responsible fiscal policies, with targets for the budget balance, debt and public sector net worth. The Act requires a budget surplus to be achieved until prudent long-term levels are achieved. It also requires full disclosure of the budget to parliament, the public and to financial markets. Departures from the guidelines must be defended and measures proposed to return to them. Governments must also provide a full assessment of its finances just before each election. The Act is not binding and has no punitive provisions but is, nevertheless, a useful start. Coterminous with action on fiscal policy, New Zealand also instituted more binding legislation under its Reserve Bank Act of 1989, which enshrined central bank independence and charged with meeting explicit inflation targets. Failure to meet these targets could result in the dismissal of the governor.

Public sector reform

The weakness of the public sector in the smaller economies derives from a lack of economies of scale, scarcity of skilled personnel and generally weak institutional infrastructures. These weaknesses are evident in the difficulties experienced by smaller economies in managing their domestic economic development and assuming international commitments in areas such as labour, environmental issues and intellectual property (ECLAC, 1996a). In some instances, especially in the war-torn economies which are entering the reconstruction stage, these weaknesses extend to other fields, such as the administration of justice, respect for property rights and the implementation of social policy.

In many of the smaller economies the quality of public sector performance has been placed under scrutiny and in several cases its functions are being reduced in scope. The trend to divest public enterprises has commenced and is likely to continue as fiscal accounts are put under further pressure and cogent arguments are being made to justify dismantling or divesting the public utilities (ECLAC, 1993).

Even hard core services in areas such as health, education and security services are being considered for private participation.

Public sector reform has commenced in several of the smaller economies, yet it needs to be deepened and spread to those which have not yet started the process. In some instances the constitutional provisions made to protect the independence of public officials has hampered the restructuring and limited the scope for basing tenure on performance criteria. In other instances lack of such provisions has worked against the development of longer-term career paths and reduced the scope for building expertise through in-service training. It also has the potential of unduly politicizing public officials and encouraging patronage.

In the overall sweep of economic reform, the role which the public sector can best perform has come under renewed scrutiny. It has been suggested elsewhere (Osborne and Gaebler, n/d), and a consensus along similar lines seems to be gaining support in some of the smaller economies, that government has a core responsibility for policy management, the legal framework, equity, prevention against discrimination and exploitation and the promotion of social cohesion. Similarly, the business sector is considered to have its competence in economic tasks, investment, profit generation and the promotion of self sufficiency among economic agents, while other non-governmental organizations might be assisted with public funds to focus on social tasks, those that require voluntary labour, provide little or no profit, require the promotion of individual responsibility, commitment to community, the welfare of others and so on.

In the midst of the changes affecting the current structures of governance the role of the State is being circumscribed and the public service is being restructured. What is likely to emerge at the end of the process is a structure greatly reduced in size and scope in some of the countries but with a role that is more precisely defined. It will need to transform itself to become a more intelligent organization, generating and using the information currently at its disposal, to reshape itself and to anticipate the needs of its constituency, which is the citizenry. It will also need to operate at a sufficiently high level of abstraction to make sense of this abundance of information, yet it will need to provide guidance that is easily understood by the citizens and amenable to daily action.

Strengthening the public administration in the smaller economies will require an appropriate level of fiscal resources, greater technical assistance and ongoing training of public sector personnel. Technical assistance to the smaller economies will greatly facilitate public sector reform, by providing access to new techniques and technologies and training in the administration of trade policy, in improving the efficiency of domestic tax structures and collection mechanisms, to support reform of regulatory frameworks and foster more transparent markets. It can also help to improve the targeting of social benefits to compensate and retrain those losing the most from trade expansion, since the likelihood of policy reversal is increased if economic integration is not accompanied by appropriate social policies in each country.[9]

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[9] Financial schemes which link individual and institutional savings with the construction of housing or with access to higher education merit special attention, in that they combine the achievement of both economic and social objectives. See ECLAC (1992), chapter VII.

Human capital and technological development

As with infrastructure, there seems to be no close correlation between the average level of human resources and the size of Latin American and Caribbean nations (see annex, table 3). Specifically, only Central America's[10] educational achievement index, which combines the adult literacy rate with the average years of schooling, is significantly lower than in the larger countries of the region. These countries also have a higher pupil/teacher ratio in primary education than the rest of the hemisphere and must make decisive commitments, through increased taxes and the reallocation of public expenditure, if they are to improve the coverage and quality of primary education. This is crucial if they are to reap the productivity gains resulting from training or the introduction of new technologies.

The situation of the English-speaking Caribbean differs somewhat, since on average it assigns a greater proportion of public expenditure to education than the larger Latin American countries, though less than Canada and the United States. Within the broad aggregates, however, there is wide variation between Caribbean countries, ranging from Haiti and Saint Kitts and Nevis which allocate less than 3% of GDP on education to Barbados and Suriname which allocate about 8%. Pupil/teacher ratios also vary, from Barbados with 19 and 18 for primary and secondary education to Jamaica with 37 and 26, respectively. This compares with an average of 25 and 14 for the larger Latin American countries or an average of just over 17 and 15, respectively, for the United States and Canada (ECLAC, 1996a). In the Caribbean countries, emphasis needs to be placed on improving the efficiency of public spending on education the quality and relevance of the curriculum.

The existence of economies of scale in scientific and technological research makes it essential for small countries to focus on activities that facilitate the dissemination and absorption of technologies and on joint technology development projects, including those which result from strategic business alliances. Furthermore, what are known as national or regional systems of innovation in larger countries may in certain instances have to include several smaller countries in order to become viable. If the smaller economies are to increase their productivity and improve their international competitiveness, they will have to undertake, a series of actions, either individually or jointly, such as harmonizing measurement systems, establishing quality standards, upgrading technology and engineering careers in universities and technical schools, developing and linking capital and technology markets, promoting the sharing of risks between private and public agents involved in innovative activities, strengthening information networks, establishing mixed (public/private) centres of technological and scientific infrastructure, providing public financing for basic research, and promoting the establishment of specialized enterprises to certify compliance with quality standards (ECLAC, 1996b, chapter VI).

Implementing trade policies

The smaller economies face major challenges as they prepare for the administration of new rules resulting from the Uruguay Round and for the negotiation and application of FTAA provisions. These include norms and procedures relating to countervailing and anti-dumping duties, rules of origin, competition policies, investment regulations, and various practices relating to trade and investment, services, intellectual property rights, the environment and labour. The institutional weakness of these

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[10] The figure corresponds to an average. Costa Rica and Panama have indexes which are closer to, or above, those of the rest of the hemisphere.

countries in the area of trade policy might be reflected in the fact that most of them became full members of GATT-WTO later than larger countries (see annex, table 2). Moreover, while they have been subject to fewer challenges under the GATT/WTO in the past than the larger economies, probably because they were too small to matter, similar benign neglect of trade policies is unlikely to continue under the new provisions of the WTO.

Greater knowledge is also needed by the smaller economies, about the impact of liberalization on specific sectors/enterprises to inform their economic and negotiating policies. For example, they should be able to anticipate which activities need to be lost to the process, which have the potential to be viable given time. It is also desirable to know how much time will be appropriate and the nature of the inputs they will need to give them a fighting chance of becoming viable. They also need to have some idea of which activities seem to have good potentials for the future expansion. Nevertheless, the neutrality of fiscal policy across all sectors should prevail.

While a core of expertise will be necessary to implement these provisions at the national level, it would be desirable to create a highly qualified and possibly complementary cadre of experts at the subregional level, so as to cater to specialized needs of groups of small countries. Public and private subregional integration organizations, supported in part by international technical assistance, could act as centres providing this kind of service to each country or group of countries (ECLAC, 1996a).

Multilateral rather than bilateral negotiations should also be sought. The former will reduce the costs resulting from the need to establish large national negotiating teams and from avoiding a potentially negative outcome from negotiations undertaken under circumstances of vulnerability and asymmetrical power relations. Moreover, the shared common characteristics of the smaller economies justify joint negotiations, either generally or on specific topics. Accordingly, they should develop joint arrangements to coordinate trade policy.

Investment in infrastructure

Examination of the raw data suggests a close relationship between the level of development and the adequacy of infrastructure, rather than between size per se and the quantity and quality of infrastructure. On the whole, indicators for the smaller economies do not differ significantly from those of larger ones, indeed on the face of it they seem to be even better in several Caribbean countries (see annex, table 4). Greater unit costs of infrastructure for the smaller economies mean that they have probably exerted greater efforts, or relied on a greater proportion of international financial cooperation, to achieve their present levels of infrastructure. In several of the latter cases, the burden of maintaining the existing infrastructure is onerous.

Nevertheless, the smaller countries with lower levels of development, especially in Central and South America, and including Haiti in the Caribbean, are called to make a particularly forceful investment effort in this area. The significant experience accumulated as a result of the high level of international lending for infrastructure projects in the past, and the largely successful implementation of these projects, makes it an area where international cooperation can be implemented more easily and have a greater impact.

However, careful evaluation of new institutional arrangements should be undertaken, which could include domestic and foreign private co-investors. A special effort might be required by lending agencies to strengthen regulatory frameworks and even legal and judicial systems in the weaker countries, if private investors are to be involved. Otherwise the implementation of infrastructure projects may be delayed.[11] This could compromise future growth and widen the gap between the relatively less developed countries and the rest of the hemisphere.

Transparent markets and competition policies

It is not immediately obvious where the process of hemispheric integration will start at the enterprise level, or how the optimal sequence of events will unfold. Actions will need to be responsive to rapidly changing global and domestic factors so that greater reliance will need to be made on individuals operating on their own initiative, via trial and error, to effect the most appropriate changes. That is, the market, guiding people by the laws of supply, demand and price will provide the most appropriate signals to disparate economic actors under conditions of uncertainty.

Proposals to give the market greater freedom to allocate resources often elicit strong objections in the smaller economies, given the myriad insecurities which they face and past practice, as mentioned earlier. Accordingly, the difficulties and dislocations which may be experienced as hitherto closed markets are liberalized should not be underestimated. In macroeconomic policy, the proper sequencing of measures is essential. Firms also need clear timetables so as to adapt to changed market arrangements. Despite these caveats, open markets and the competition which they foster have shown elsewhere, including in some smaller economies, a strong tendency to reduce costs and prices, to tailor outputs to customer wants, to stimulate innovation and to expand markets for exports. Nevertheless, markets do not always function effectively, especially in the smaller economies, where they are likely to comprise one or few actors with ample opportunity to collude, so that monopolies and oligopolies thrive.

Past efforts to deal with market imperfections in some of the smaller economies have focused on fettering them with bureaucratic regulations rather than attempting to make them work more smoothly (ECLAC, 1993). The growth of regulations often had the effect of counteracting each other resulting in bizarre unintended outcomes. Regulations were rarely operated impersonally and incentives were difficult to remove even where they were shown to be ineffective. Entrepreneurs became more adept at lobbying for favours than at increasing internal efficiency. Infant industries spawned on them grew up to become competitive. Policy failure has, therefore, been glaring over the past 10 years and the pendulum has, therefore, swung back to seeking a more comprehensive role for markets, but problems remain.

Even where these most blatant distortions are absent, markets may not always function efficiently. Firms might produce too much of a certain good, or too little of it, due to the presence of externalities. Externalities are deemed to be present when a firm or individual creates costs or benefits for another firm or individual without being compensated or charged, as appropriate, for them. For example, a firm might produce excess pollution, which is a cost to the public because it is not penalized appropriately for doing so. Pressure might be put on the public apparatus to clean it up thus penalizing the citizen twice. Similarly, a firm might fail to provide education and training for its workers if they can be poached from a competitor at minimal cost, or another might resist training for fear that skilled workers might leave

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[11] This might be necessary to provide economic agents with a more transparent operating environment and safeguard against unethical practices, inadequate specifications of contracts or weak executing capabilities of local counterparts.

and transfer that benefit to a competitor which does not have to compensate the providing firm for it. Government intervention is, accordingly, warranted in instances where externalities are present. They might legislate to ensure that the "polluter pays principle", that is, pays to remove his own emissions or the discharge of effluent into public commons, either the air or water. Or the government might compensate a firm which provides training via tax relief, or government might provide the training as a public good. It is important, however, that government intervention be subtle, that it addresses only significant market imperfections and ensure that benefits from intervention outweigh the costs.

The tendency toward monopoly or oligopoly has already been mentioned. It is widely assumed that certain activities constitute "natural monopolies", such as water purification and distribution, electricity and telecommunications. These activities have in the past been the first to be acquired by the State on the argument that their market position gave them the power to exploit consumers. After periods of mismanagement/politicization these common services have often been decapitalized and constitute a severe drain on the budget. With increasing global competition it is becoming more obvious that the utilities can significantly strengthen, or weaken, systemic efficiency. Success in the trade in services will depend in large measure on competitive utility rates. Efforts to divest them usually have not, however, given enough consideration to reducing their monopoly position which will pass to private actors. Systemic efficiency cannot be guaranteed simply by divestment.

Often the cursory answer is to regulate them. Regulatory bodies for the utilities have been tried which comprise various combinations of consumer, industry and public sector interests. Results have been mixed. Rather than succumb to the notion that regulation is the only solution, efforts might also be made to dismantle monopolies into their components where possible, letting or selling the component parts to private tender. For instance, billing functions could be outsourced, generating stations could be sold to several private operators who would in turn compete to sell their output to the national grid. Line maintenance functions could be set to tender in discrete geographic areas and competing small/medium sized contractors encouraged to compete for the business. In telecommunications, new technologies introduce new options to compete via new modes of communication, and deregulation is encouraging several of the traditional ones such as, local telephone, international telephone, cable-TV and short waves to compete in each other's markets. These changes are expected to unleash new rounds of creativity and productivity, with unforeseen consequences. Encouraging the various modes to compete via different companies might reduce telecommunications costs and help countries to remain close to the technological frontier. But already some public/private joint venture monopolies, the most difficult to regulate, have been spawned in some of the smaller economies with the capacity to dominate utilities, running the risk of stagnation in key systemic services.

Oligopolies are also endemic in small countries and are almost inevitable where policies erect barriers to entry to favour nationals. Liberalizing the market for goods and services and opening it to foreign competition might be the only sure way to reduce the incidence of oligopoly. Yet the danger of powerful foreign firms entering and dominating the market needs to be recognized. Weak domestic firms might need technical assistance to determine an appropriate course of future action. For example, such firms might need to be guided into strategic alliances with other domestic or foreign firms, while in other cases training or investment to improve technologies might suffice.

Given the problems faced by the smaller economies in achieving transparent and efficient domestic markets, appropriate policies should be devised for that purpose. These might include the adoption of competition legislation, including a Competition Authority to monitor the implementation of the law (UNCTAD, 1996, p. 13). The Authority would also advise government, or governments if the Authority was given jurisdiction over subregional groupings, on all matters affecting the creation of transparent and efficient markets. In addition to the issues mentioned above, it would need to help facilitate a more equitable and efficient operation of factor markets. Clearly defined property rights through the provision of titles and defined boundaries with guaranteed access to inputs and factors of production, remain a pressing need in some of the smaller economies. Their provision ought to stimulate investment in depressed rural areas. Furthermore, to spread the benefits resulting from renewed investment and growth, specific policies must be implemented to ensure an efficient and equitable functioning of land and financial markets. Inheritance taxes and credit for the purchase of land could contribute to encourage a more efficient market for rural property while reducing its concentration. Prudential supervision of financial institutions should also be used to prevent undue exposure resulting from a non-competitive allocation of credit among major property owners. The difficulties of implementing these reforms cannot be underestimated, since they are not simply decree-driven; normally they involve complex organizational transformations, legislative approval and overcoming entrenched interest groups (Naim, 1993, pp. 142-143).

CONCLUSIONS

The smaller economies must undertake a several internal adjustments, if they are to benefit from the opportunities offered by hemispheric integration and increasingly global markets. The efforts required to secure these adjustments should not, however, be underestimated. They need to adopt policies which go counter to practices accepted over the past three decades, several of which might have been justified when markets for goods and factors were more obviously compartmentalized. But as global circumstances change to consolidate markets, the development paradigm must adjust to exploit these changes. Integrating markets will ultimately change the ways smaller economies see themselves and remove several of the constraints which seemed to derive from smallness. For example, as product markets consolidate and become more transparent, niches within them become more visible and provide the smaller economies with opportunities to supply diversified products. Or the quality of services which a small country could justify solely for its small market might be significantly upgraded if these services could be traded in much larger market. Nevertheless, the need to navigate in the wider hemispheric or global market will create a daunting psychological barrier for those who equate smallness with weakness.

While the benefits to be gained from expanded markets is generally acknowledged, in the past some free trade arrangements have made provision for special categories in recognition of the fact that the gains to be derived from such arrangements were not equally distributed. In such cases, it was argued that some redistributory mechanism was necessary to ensure that those least likely to benefit from the agreement in the short term would, nevertheless, be encouraged to remain stakeholders and sustain their contribution to the group as a whole. It was also recognized that as the trading relationship deepened, convergence in several other areas of policy would become desirable. Accordingly, measures were devised to coordinate and encourage a closer convergence in economic indicators. Similar arrangements might also eventually become necessary in the FTAA.

Internal policy adjustments which the smaller economies must adopt fall into two broad categories. The first, which is a precondition for the success of the second, is in the realm of macroeconomic policy. Here the objective is to maintain a stable equilibrium, in the face of liberalizing product and factor markets, while encouraging the economy to expand efficiently toward its production frontier. The second set of policy initiatives should seek to provide a business climate in the smaller economies which would encourage local and foreign investment to use them as platforms to service seemingly limitless hemispheric and global markets. If this is to happen, such investors will need to be convinced that a relatively stable operating environment exists, in which the risks deriving from capricious or inappropriate policy and the numerous impediments which limit the proper functioning of factor and product markets, and which are endemic in smaller economies, are minimized.

The task which the smaller underdeveloped economies must undertake is difficult, especially given the time frame in which they must operate. Yet the task is manageable, and the probability of success can be significantly increased if judicious technical and financial assistance is provided for them at the national and sub-regional levels. Finally, another form of concession which the smaller economies might also seek, is greater time to apply corrective policies. This is a concession which should be used judiciously. Postponement might allow some selected entities to become viable or some policies to be applied without undue shocks, which otherwise might prompt policy reversals. At the same time, postponement could reflect a desire to stall needed reforms and protect minority interests. Postponement could also prolong the adjustment phase and defer the attendant results, thus encouraging adjustment fatigue. Postponement is, therefore, not a cost free option and the smaller economies should have recourse to it only where there are strong indications of significantly greater medium term benefits accruing from it.

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STATISTICAL ANNEX

Table 1

MACROECONOMIC ELIGIBILITY INDICATORS

Country	Consumer Price Index a/ (Average annual percentage variation) 1992-1994		Central Government fiscal balance (% of GDP) b/ c/ 1992-1994		Current account balance (% of GDP) d/ (average of the past 3 years)		Nominal exchange-rate stability (percentage change) 1992-1994	
Large Latin American countries								
Argentina	9.7	(17)	-0.2	(9)	-3.1	(13)	0.4	(10)
Brazil	1,522.5	(33)	-1.0	(13)	0.7	(4)	131.4	(32)
Colombia	23.4	(25)	1.0	(7)	-2.2	(9)	5.5	(19)
Mexico	9.0	(14)	1.7	(2)	-7.3	(23)	4.0	(15)
Peru	37.2	(28)	-0.3	(10)	-5.4	(18)	22.5	(30)
Venezuela	49.5	(30)	-4.5	(25)	-0.8	(5)	32.9	(31)
Chile	11.3	(18)	2.3	(1)	-1.7	(7)	5.4	(18)
Central American isthmus and the Dominican Republic								
Costa Rica	15.3	(22)	-3.6	(19)	-6.6	(21)	6.5	(20)
El Salvador	13.7	(21)	-3.6	(19)	-4.6	(17)	1.9	(13)
Guatemala	12.5	(20)	-1.2	(14)	-6.5	(19)	4.5	(16)
Honduras	21.4	(24)	-6.5	(29)	-11.8	(27)	17.9	(28)
Nicaragua	11.8	(19)	-8.5	(31)	-51.0	(32)	12.3	(24)
Panama	1.3	(3)	-0.9	(12)	-2.4	(10)	0.0	(1)
Dominican Republic	7.9	(13)	0.3	(8)	-3.4	(14)	1.6	(12)

Table 1 (cont.)

Country	Consumer Price Index a/ (Average annual percentage variation) 1992-1994		Central Government fiscal balance (% of GDP) b/ c/ 1992-1994		Current account balance (% of GDP) d/ (average of the past 3 years)		Nominal exchange-rate stability (percentage change) 1992-1994	
Small South American countries								
Bolivia	9.5	(16)	-4.9	(27)	-6.8	(22)	6.9	(21)
Ecuador	38.9	(29)	-0.8	(11)	-2.8	(12)	14.4	(26)
Paraguay	18.8	(23)	1.5	(3)	-8.6	(26)	9.8	(23)
Uruguay	52.0	(31)	-1.3	(15)	0.9	(3)	20.7	(29)
Caribbean countries								
Bahamas	3.2	(11)	-2.9	(17)	-7.3	(23)	0.0	(1)
Barbados	0.6	(1)	-1.8	(16)	1.8	(2)	0.0	(1)
Belize	2.0	(4)	-7.6	(30)	-2.7	(11)	0.0	(1)
Dominica	2.8	(6)	-6.5	(28)	-14.1	(29)	0.0	(1)
Grenada	3.1	(10)	-4.4	(24)	-17.0	(30)	0.0	(1)
Guyana	2.8	(6)	-22.2	(33)	-	-	4.5	(16)
Haiti	36.5	(27)	-4.0	(23)	-8.4	(25)	7.4	(22)
Jamaica	34.3	(26)	-4.6	(26)	-3.9	(15)	16.2	(27)
Saint Kitts and Nevis	2.5	(5)	1.2	(6)	-18.0	(31)	0.0	(1)
Saint Vincent and the Grenadines	2.9	(9)	1.3	(4)	-6.5	(19)	0.0	(1)
Saint Lucia	3.9	(12)	1.3	(4)	-13.6	(28)	0.0	(1)
Suriname	71.1	(32)	-10.6	(32)	-1.8	(8)	135.9	(33)
Trinidad and Tobago	9.2	(15)	-3.1	(18)	3.5	(1)	13.4	(25)

Table 1 (concl.)

Country	Consumer Price Index a/ (Average annual percentage variation) 1992-1994		Central Government fiscal balance (% of GDP) b/ c/ 1992-1994		Current account balance (% of GDP) d/ (average of the past 3 years)		Nominal exchange-rate stability (percentage change) 1992-1994	
North America								
Canada	1.2	(2)	-3.6	(19)	-4.0	(16)	3.5	(14)
United States	2.8	(6)	-3.8	(22)	-0.9	(6)	1.5	(11)

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean* and *Economic Survey of Latin America and the Caribbean*; International Monetary Fund (IMF), *International Financial Statistics*.

Note: The ranking for each indicator is shown in brackets, with 1 designating the best country and 33 the worst.

a/ Data are for 1990-1992 for Guyana; for 1991-1993 for Suriname and Saint Lucia.
b/ The mean for the Central American isthmus and the Dominican Republic differs significantly from the big country mean with 90% reliability.
c/ Data for Guyana are for 1992 only; for Saint Lucia they are for 1988-1990; for Saint Kitts and Nevis, for 1991-1993. Data for Dominica, Grenada, Jamaica, Saint Vincent and the Grenadines and Suriname were obtained from the World Bank, "Caribbean Region Current Situation, Regional Issues and Capital Flows", 1992; they relate to the period 1989-1990.
d/ Data are for 1990-1991 for Bolivia.

Table 2

TRADE POLICY INDICATORS

Country	Mean tariff a/ 1994		Tariff spread a/ b/ c/ 1994		Year of entry into GATT		Tokyo Round agreements signed up to May 1994 c/ d/ e/		GATT investigations c/ d/ f/ 1985-1994	
Large Latin American countries										
Argentina	15.82	(26)	9.22	(16)	1967	(13)	6	(3)	6	(30)
Brazil	10.69	(6)	7.17	(13)	1948	(1)	6	(3)	17	(33)
Colombia	11.57	(9)	6.40	(10)	1981	(16)	2	(7)	5	(29)
Mexico	11.58	(10)	4.15	(4)	1986	(18)	4	(5)	2	(26)
Peru	16.32	(27)	3.38	(3)	1951	(8)	2	(7)	6	(30)
Venezuela	11.80	(23)	6.04	(6)	Ongoing	(30)	0	(14)	3	(28)
Chile	10.96	(8)	0.66	(1)	1949	(4)	4	(5)	1	(21)
Central American isthmus and the Dominican Republic										
Costa Rica	11.74	(11)	7.88	(15)	1990	(19)	0	(14)	1	(21)
El Salvador	9.21	(4)	6.06	(7)	1991	(21)	0	(14)	1	(21)
Guatemala	10.82	(7)	7.07	(12)	1991	(21)	1	(9)	0	(1)
Honduras	17.90	(29)	10.39	(18)	1994	(26)	0	(14)	0	(1)
Nicaragua	17.38	(28)	18.96	(30)	1950	(5)	0	(14)	0	(1)
Panama	27.50	(31)	31.50	(31)	Ongoing	(30)	0	(14)	0	(1)
Dominican Republic	19.80	(30)	9.40	(17)	1950	(5)	1	(9)	0	(1)

Table 2 (cont.)

Country	Mean tariff 1994 a/		Tariff spread a/ b/ c/ 1994		Year of entry into GATT		Tokyo Round agreements signed up to May 1994 c/ d/ e/		GATT investigations c/ d/ f/ 1985-1994	
Small South American countries										
Bolivia	9.80	(5)	0.99	(2)	1990	(19)	0	(14)	0	(1)
Ecuador	11.91	(24)	6.28	(9)	Ongoing	(30)	0	(14)	1	(21)
Paraguay	8.03	(2)	7.72	(14)	1994	(26)	1	(9)	0	(1)
Uruguay	14.74	(25)	5.86	(5)	1953	(9)	0	(14)	1	(21)
Caribbean countries										
Bahamas	11.79	(12)	12.14	(19)	Ongoing	(30)	0	(14)	0	(1)
Barbados	11.79	(12)	12.14	(19)	1967	(13)	0	(14)	0	(1)
Belize	11.79	(12)	12.14	(19)	1983	(17)	0	(14)	0	(1)
Dominica	11.79	(12)	12.14	(19)	1993	(23)	0	(14)	0	(1)
Grenada	11.79	(12)	12.14	(19)	1994	(26)	0	(14)	0	(1)
Guyana	11.79	(12)	12.14	(19)	1966	(12)	0	(14)	0	(1)
Haiti					1950		1		0	
Jamaica	11.79	(12)	12.14	(19)	1963	(11)	1	(9)	0	(1)
Saint Kitts and Nevis	11.79	(12)	12.14	(19)	1994	(26)	0	(14)	0	(1)
Saint Vincent and the Grenadines	11.79	(12)	12.14	(19)	1993	(23)	0	(14)	0	(1)
Saint Lucia	11.79	(12)	12.14	(19)	1993	(23)	0	(14)	0	(1)
Suriname					1978		0		0	
Trinidad and Tobago	11.79	(12)	12.14	(19)	1962	(10)	0	(14)	0	(1)

Table 2 (concl.)

Country	Mean tariff 1994 a/	Tariff spread a/ b/ c/ 1994	Year of entry into GATT	Tokyo Round agreements signed up to May 1994 c/ d/ e/	GATT investigations c/ d/ f/ 1985-1994
North America					
Canada	8.66 (3)	7.00 (11)	1948 (1)	10 (1)	14 (32)
United States	6.36 (1)	6.08 (8)	1948 (1)	9 (2)	2 (26)

Source: Preliminary Report of the Organization of American States (OAS) Special Trade Commission to the meeting of ministers of foreign trade of the western hemisphere, 1995; General Agreement on Tariffs and Trade, General Review of Trends in International Trade and the Trading System, 1994.

Note: The ranking for each indicator is shown in brackets, with 1 designating the best country and 33 the worst.

a/ Data are for 1993 for the United States and Canada.
b/ The mean for the countries of the Central American isthmus and the Dominican Republic differs significantly from the big country mean with 90% reliability.
c/ The big country mean differs significantly from the mean for the Caribbean countries with 95% reliability.
d/ The mean for the countries of the Central American isthmus and the Dominican Republic differs significantly from the big country mean with 95% reliability.
e/ The big country mean differs significantly from the mean for the small South American countries with 95% reliability.
f/ The big country mean differs significantly from the mean for the small South American countries with 90% reliability.

Table 3

HUMAN RESOURCES INDICATORS

Country	Relative level of productivity of agricultural workforce a/ 1993		Educational achievement index b/ (UNDP) 1992		Workforce employed in modern (non-agricultural) sector c/ d/ e/	
Large Latin American countries						
Argentina	13.26	(4)	2.53	(4)	87.90	(11)
Brazil	2.94	(13)	1.91	(27)	77.16	(20)
Colombia	2.65	(14)	2.25	(14)	98.59	(4)
Mexico	3.24	(11)	2.10	(25)	77.40	(19)
Peru	1.79	(23)	2.16	(21)	99.12	(1)
Venezuela	4.16	(8)	2.21	(19)	86.53	(13)
Chile	2.03	(19)	2.39	(7)	80.9	(16)
Central American isthmus and the Dominican Republic						
Costa Rica	4.61	(7)	2.24	(17)	79.37	(18)
El Salvador	1.04	(29)	1.77	(30)	64.16	(31)
Guatemala	1.98	(21)	1.40	(32)	69.82	(28)
Honduras	0.63	(32)	1.77	(31)	61.79	(32)
Nicaragua	1.30	(27)	1.86	(28)	86.94	(12)
Panama	3.12	(12)	2.25	(14)	73.69	(25)
Dominican Republic	1.79	(23)	1.97	(26)	76.40	(23)

Table 3 (cont.)

Country	Relative level of productivity of agricultural workforce a/ 1993		Educational achievement index b/ (UNDP) 1992		Workforce employed in modern (non-agricultural) sector c/ d/ e/	
Small South American countries						
Bolivia	1.17	(28)	1.85	(29)	98.80	(3)
Ecuador	1.78	(25)	2.12	(23)	68.80	(30)
Paraguay	2.50	(15)	2.14	(22)	98.83	(2)
Uruguay	7.42	(6)	2.47	(6)	85.40	(14)
Caribbean countries						
Bahamas	2.02	(20)	2.39	(7)	94.30	(7)
Barbados	9.12	(5)	2.61	(3)	89.90	(9)
Belize	3.49	(9)	2.23	(18)	69.34	(29)
Dominica	2.25	(18)	2.25	(14)	72.86	(26)
Grenada	2.26	(17)	2.27	(12)	77.08	(21)
Guyana	1.97	(22)	2.28	(11)	83.18	(15)
Haiti	0.07	(33)	1.21	(33)	34.30	(33)
Jamaica	1.01	(30)	2.32	(10)	72.74	(27)
Saint Kitts and Nevis	1.42	(26)	2.38	(9)	74.85	(24)
Saint Vincent and the Grenadines	0.75	(31)	2.27	(12)	76.78	(22)
Saint Lucia	2.33	(16)	2.12	(23)	79.54	(17)
Suriname	22.52	(3)	2.19	(20)	90.70	(8)
Trinidad and Tobago	3.35	(10)	2.48	(5)	89.60	(10)

Table 3 (concl.)

Country	Relative level of productivity of agricultural workforce a/ 1993		Educational achievement index b/ (UNDP) 1992		Workforce employed in modern (non-agricultural) sector c/ d/ e/	
North America						
Canada	25.52	(2)	2.80	(2)	96.5	(6)
United States	27.05	(1)	2.81	(1)	97.1	(5)

Source: World Bank, World Development Report; UNDP, Human Development Report; ECLAC, *Statistical Yearbook for Latin America and the Caribbean*; FAO, Production Yearbook; IMF, *International Financial Statistics*; ILO, Labour Statistics Yearbook.

Note: The ranking for each indicator is shown in brackets, with 1 designating the best country and 33 the worst.

a/ Data are for 1981 for Dominica and Grenada; 1980 for Belize, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia. Data are for 1989 for Bahamas and are an ECLAC estimate based on official figures.

b/ The mean for the small South American countries differs significantly from the big country mean with 90% reliability.

c/ The mean for the small South American countries differs significantly from the big country mean with 95% reliability.

d/ Data are for 1992 for Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Brazil, Colombia, Peru and Venezuela; 1981 for the Dominican Republic; 1980 for Argentina; and 1990 for Mexico.

e/ Data are for 1991 for Bolivia, Paraguay, Trinidad and Tobago, Canada and the United States; 1990 for Ecuador and Haiti; 1980 for Suriname, Bahamas, Belize, Guyana, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia; 1985 for Uruguay; 1982 for Barbados and Jamaica; and 1981 for Belize.

Table 4

INFRASTRUCTURE INDICATORS

Country	Number of telephone lines per 1,000 inhabitants a/ 1992		Number of kilometres of paved road per 1 million inhabitants b/ 1992		Total residential electric power consumption (kilowatt-hours per capita) c/ 1990-1992	
Large Latin American countries						
Argentina	123	(11)	1856	(16)	365.20	(13)
Brazil	71	(21)	929	(21)	334.20	(14)
Colombia	85	(19)	383	(27)	379.49	(11)
Mexico	80	(20)	1019	(20)	411.26	(9)
Peru	27	(28)	347	(29)	209.86	(20)
Venezuela	91	(17)	10296	(3)	533.90	(6)
Chile	94.00	(16)	808.00	(22)	401.83	(10)
Central American isthmus and the Dominican Republic						
Costa Rica	102	(13)	1756	(17)	517.99	(7)
El Salvador	31	(26)	323	(30)	190.07	(21)
Guatemala	22	(29)	320	(31)	73.03	(30)
Honduras	21	(30)	443	(25)	170.06	(24)
Nicaragua	14	(32)	414	(26)	103.97	(29)
Panama	97	(15)	1332	(19)	708.49	(3)
Dominican Republic	66	(23)	364	(28)	375.78	(12)

Table 4 (cont.)

Country	Number of telephone lines per 1,000 inhabitants a/ 1992		Number of kilometres of paved road per 1 million inhabitants b/ 1992		Total residential electric power consumption (kilowatt-hours per capita) c/ 1990-1992	
Small South American countries						
Bolivia	33	(25)	258	(32)	166.75	(25)
Ecuador	48	(24)	476	(24)	188.97	(22)
Paraguay	28	(27)	592	(23)	245.33	(17)
Uruguay	168	(7)	2,106	(14)	564.02	(5)
Caribbean countries						
Bahamas	533	(3)	7,261	(5)	1,264.21	(2)
Barbados	421	(4)	6,006	(6)	1,534.75	(1)
Belize	101	(14)	4,506	(10)	187.75	(23)
Dominica	204	(6)	8,508	(4)	145.27	(27)
Grenada	295	(5)	5,750	(9)	234.43	(19)
Guyana	20	(31)	5,981	(7)	107.41	(28)
Haiti	8	(33)	110	(33)	19.74	(31)
Jamaica	70	(22)	1,881	(15)	240.21	(18)
Saint Kitts and Nevis	90	(18)	3,254	(13)	316.33	(15)
Saint Vincent and the Grenadines	154	(8)	4,397	(11)	159.81	(26)
Saint Lucia	123	(11)	4,131	(12)	265.90	(16)
Suriname	144	(9)	5,949	(8)	494.10	(8)
Trinidad and Tobago	142	(10)	1,724	(18)	692.70	(4)

Table 4 (concl.)

Country	Number of telephone lines per 1,000 inhabitants a/ 1992		Number of kilometres of paved road per 1 million inhabitants b/ 1992		Total residential electric power consumption (kilowatt-hours per capita) c/ 1990-1992
North America					
Canada	592	(1)	11,451	(2)	
United States	565	(2)	14,453	(1)	

Source: World Bank, World Development Report; Latin American Energy Organization (OLADE), Estadísticas e indicadores económico-energéticos de América Latina y el Caribe; ECLAC, *Statistical Yearbook for Latin America and the Caribbean*; UNDP, Human Development Report.

Note: The ranking for each indicator is shown in brackets, with 1 designating the best country and 33 the worst.

a/ Data for the Caribbean countries, except for Jamaica and Trinidad and Tobago, are from UNDP and correspond to the 1990-1992 average.

b/ The figures for the Caribbean countries, except for Jamaica and Trinidad and Tobago, and for Paraguay, are from ECLAC. Data are for 1993 for Paraguay, and Saint Vincent and the Grenadines; 1991 for Barbados and Belize; 1990 for Suriname; 1988 for Saint Lucia; 1985 for Haiti, Bahamas, Saint Kitts and Nevis, Dominica and Guyana; 1983 for Grenada. Data for Belize, Dominica, Grenada, Guyana and Saint Lucia are ECLAC estimates based on official figures.

c/ Data for Bahamas, Belize, Dominica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, and Saint Lucia are ECLAC estimates based on official figures.